

Level

0	No valid discussion.	0
1	Few relevant concepts recognized. Little discussion or only basic understanding.	1-2
2	Relevant concepts recognized and developed in reasonable depth. Some attempt at application and analysis.	3-5
3	Relevant concepts developed in reasonable depth, demonstrating effective evaluation, supported by appropriate evidence or theory.	6-8

4. (a) Define the following terms indicated in bold in the text:

(i) currency appreciation (paragraph ③) **[2 marks]**

level

0	<i>Wrong definition</i>	0
1	<i>Vague definition</i> The idea that it involves an increase in the value of a currency.	1
2	<i>Precise definition</i> For an explanation that it is an increase in the value of one currency in terms of another currency in a floating exchange rate system (or due to changes in demand and supply).	2

In some parts of the world, terms are defined differently and if this is the case, appropriate definitions should be rewarded, even if they are not exactly as the one given here.

(ii) **monetary policy (paragraph 7).** **[2 marks]**

level

0	<i>Wrong definition</i>	0
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1	<i>Vague definition</i>	1
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The idea that it is a policy concerned with controlling the amount of money in the economy.

2	<i>Precise definition</i>	2
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An explanation that it is a demand-side policy, with the central bank using changes in the money supply or interest rates to affect AD. (Any two main points from this would be sufficient to achieve this level, *i.e.* two of “demand-side policy”, “central bank”, “interest rates”, and “money supply”).

In some parts of the world, terms are defined differently and if this is the case, appropriate definitions should be rewarded, even if they are not exactly as the one given here.

- (b) Using an appropriate diagram, explain how the Philippines' central bank could reduce the value of the peso from 50 pesos per US dollar to 52 pesos per US dollar (*paragraph ③*). [4 marks]

level

- | | | |
|---|--|-----|
| 0 | Inappropriate answer | 0 |
| 1 | <i>Identification of appropriate theory</i>
For drawing a demand and supply diagram for the Philippines currency relative to the US dollar which shows a shift in the supply curve to the right or for providing an explanation that the Philippines central bank could influence the value of the peso by selling Philippines currency on the foreign exchange market. This sale of currency will decrease the value of the peso relative to US dollar. | 1-2 |
| 2 | <i>Correct application of appropriate theory</i>
For drawing a demand and supply diagram for the Philippines currency relative to the US dollar which shows a shift in the supply curve to the right and for providing an explanation that the Philippines central bank could influence the value of the peso by selling Philippines currency on the foreign exchange market. This sale of currency will decrease the value of the peso relative to US dollar. | 3-4 |

Some candidates may approach the question by referring to central bank reductions in interest rates, which will generate hot money movements that would lower the value of the peso. If properly explained, with an appropriate diagram, this approach should be fully rewarded.

Candidates who incorrectly label diagrams cannot be rewarded with full marks.

For an exchange rate diagram, the vertical axis may be exchange rate, pesos per US\$, or pesos. The horizontal axis should be quantity or quantity of pesos. A title is not necessary.

- (c) Using an appropriate diagram, explain how the 8 % rise in the Philippines peso (*paragraph ①*) has affected the market for mangos in Mexico. [4 marks]

level

- | | | |
|---|--|-----|
| 0 | Inappropriate answer | 0 |
| 1 | <i>Identification of appropriate theory</i>
For drawing a demand and supply diagram for mangos in Mexico showing a shift to the right in demand for Mexican mangos or for providing an explanation that an increase in the value of the peso will make exports from the Philippines more expensive and imported mangos from Mexico relatively cheaper, hence increasing demand for mangos from Mexico. | 1-2 |
| 2 | <i>Correct application of appropriate theory</i>
For drawing a demand and supply diagram for mangos in Mexico showing a shift to the right in demand for Mexican mangos and for providing an explanation that an increase in the value of the peso will make exports from the Philippines more expensive and imported mangos from Mexico relatively cheaper, hence increasing demand for mangos from Mexico. | 3-4 |

Candidates who incorrectly label diagrams cannot be rewarded with full marks.

The use of P and Q on the axes is sufficient for a demand and supply diagram. A title is not necessary.

- (d) Using information from the text and your knowledge of economics, evaluate the impact of a currency appreciation on the Philippines economy.

[8 marks]

Positive impacts **may** include:

- the cost of servicing and repaying the US\$76 billion foreign debt will decrease (*paragraph 6*)
- more public funds to improve welfare (*paragraph 6*)
- imports into the Philippines will be cheaper which will contribute to reduced inflationary pressures (*paragraph 7*)
- reduced cost of imported capital goods, energy resources and raw materials will improve productive efficiency and competitiveness
- importing firms will increase profits and may create new jobs
- possible improvement in income distribution with a positive impact on reducing the number of people living below the poverty line
- any reasonable answer.

Negative impacts **may** include:

- exporters in competing countries, such as Mexico, will benefit (*paragraph 2*)
- exporters will suffer losses of revenue (*paragraph 3*)
- export profit margins will be reduced (*paragraph 3*)
- the purchasing power in the Philippines for citizens based overseas will decline and the income of households depending on those remittances will decrease (*paragraph 4*)
- the problems of the exporters could have a negative effect on consumer spending, employment, and economic growth (*paragraph 5*)
- negative impact on the current account balance, depending upon elasticities of demand for exports and imports and the effects on tourism
- possible reduced demand for domestically produced items as imports are now cheaper
- any reasonable answer.

Examiners should be aware that candidates may take a different approach which if appropriate, should be rewarded.

Do not award more than **[5 marks]** if the answer does not contain reference to the information provided.

Effective evaluation may be to:

- consider short-term versus long-term consequences
- examine the impact on different stakeholders
- discuss advantages and disadvantages
- prioritize the arguments.